

Message Text

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ACTION EB-07

INFO OCT-01 ARA-10 ISO-00 STR-04 AID-05 CIAE-00 INR-07

NSAE-00 RSC-01 COME-00 FRB-01 TRSE-00 XMB-04 OPIC-06

SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 INT-05 L-02 SS-15

NSC-05 SSO-00 NSCE-00 INRE-00 EUR-12 /095 W

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O R 270020Z JAN 75

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC NIACT IMMEDIATE 7487

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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ATTN: SECRETARY DENT, USDOC; UNDERSECRETARY ROBINSON, STATE;
UNDERSECRETARY BENNET, TREASURY; AND EXIMBANK CHAIRMAN CASEY

PASS USDOC DEPUTY ASST SECY HOSTLER OPENING OF BUSINESS MONDAY
FOR MEETING WITH SECRETARY DENT

E.O. 11652: N/A

TAGS: BR, BEXP, EIND

SUBJECT: USG/US STEEL INDUSTRY SUPPLIER TASK FORCE

REF: (A) STATE 249689; (B) BRASILIA 0257

SUMMARY: USG/US STEEL INDUSTRY SUPPLIER TASK FORCE, HEADED
BY COMMERCE DEPUTY ASST. SECY. HOSTLER, HELD SERIES OF FRANK,
HIGHLY USEFUL DISCUSSIONS JANUARY 22-25 WITH SENIOR GOB AND
BRAZILIAN STEEL COMPANY OFFICIALS ON PHASE III BRAZILIAN STEEL
EXPANSION PROGRAM. MAIN RESULTS OF MEETINGS WERE CLARIFICATIONS
BRAZILIAN BIDDING GUIDELINES AND PROCEDURES, AND BRAZILIAN
FINANCING REQUIREMENTS. BRAZILIAN REPS EXPRESSED WILLINGNESS TO
CONSIDER MODIFYING BRAZILIAN POSITION ON NUMBER OF KEY POINTS.
BRAZILIAN OFFICIALS MADE CLEAR, HOWEVER, AND USG AND INDUSTRY REPS
AGREE, THAT MAJOR EXIMBANK FINANCING EFFORT WILL BE REQUIRED FOR
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US TO BE COMPETITIVE WITH OTHER SUPPLIER COUNTRIES. END SUMMARY

PART I: AGREED SUMMARY OF UNDERSTANDINGS

1. USG-US STEEL INDUSTRY SUPPLIER TASKFORCE, LEAD BY US DEPT OF COMMERCE DEPUTY ASSISTANT SECRETARY HOSTLER, ACCOMPANIED BY AMBASSADOR

CRIMMINS AND EMBASSY STAFF, MET WITH SIDERBRAS AND SENIOR OFFICIALS FROM CSN, COSIPA AND USIMINAS FOR SERIES OF VERY FRANK AND OPEN DISCUSSIONS ON PHASE III BRAZILIAN STEEL EXPANSION. THE 18 SENIOR US INDUSTRY OFFICIALS REPRESENTING 10 MAJOR US FIRMS SELECTED CHARLES GOLSON, V.P., MCKEE CO. AS THEIR CHIEF SPOKESMAN. THE MEETINGS INCLUDED CALLS ON MINISTER OF FINANCE SIMONSEN AND MINISTER OF INDUSTRY AND COMMERCE GOMES. THE DISCUSSIONS CENTERED ON TWO MAJOR ISSUES: BIDDING GUIDELINES AND PROCEDURES AND FINANCING REQUIREMENTS.

2. SIDERBRAS CLARIFIED THE FOLLOWING AREAS REGARDING BIDDING GUIDELINES:

A. TWO EQUIPMENT LIST - TWO EQUIPMENT LISTS WILL BE ISSUED, ONE TO BE FINANCED WITH BILATERAL CREDITS AND THE OTHER USING IBRD-IDB CREDITS. THE WORLD BANK/IDB FUNDS WILL BE AVAILABLE TO ALL IMF COUNTRY MEMBERS PLUS SWITZERLAND. THE BRAZILIAN BORROWER COMPANIES WILL SPECIFY IN THEIR LETTERS OF INQUIRY THE LIST UNDER WHICH EACH MODULE WILL BE FINANCED. THE FINAL LISTS WILL BE AVAILABLE AS SOON AS THE FINAL CONTRACT BETWEEN THE IBRD-IDB AND CSN-COSIPA IS SIGNED.

B. COMPANY AUTONOMY - EACH OF THE THREE BRAZILIAN COMPANIES WILL BE GIVEN LATITUDE IN PLANNING THE PROCEDURES UNDER WHICH THEIR RESPECTIVE PROCUREMENT WILL BE EFFECTED. SIDERBRAS WILL, HOWEVER, HAVE TO COORDINATE TO INSURE SIMILARITY OF PROCEDURES.

C. BID SPECIFICATIONS - BRAZILIAN COMPANIES BELIEVE THEIR SPECIFICATIONS AS NOW WRITTEN ARE FLEXIBLE ENOUGH TO PERMIT THE SUBMISSION OF ALTERNATE PROPOSALS, UNLESS OTHERWISE SPECIFIED. THE BRAZILIAN COMPANIES WILL CONSIDER ALTERNATE PROPOSALS IF THEY REFLECT PROVEN TECHNOLOGY.

D. PROPRIETARY TECHNICAL DRAWINGS - THE BRAZILIAN COMPANIES WERE SYMPATHETIC TO THE PROBLEM OF PROTECTING THE PROPRIETARY UNCLASSIFIED

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DRAWINGS SUBMITTED BY SUPPLIERS DURING THE BIDDING STAGES, PARTICULARLY WHEN THEIR CONSULTANTS ARE COMPETITORS OF THE SUPPLIERS. ALTHOUGH THEY RESERVED THE RIGHT TO REQUIRE SUBMISSION OF ANY DRAWINGS ESSENTIAL TO BID EVALUATION, THEY WOULD TRY TO DO THIS IN A MANNER DESIGNED TO PROTECT THE SUPPLIERS' PROPRIETARY INFORMATION.

E. LOCAL CURRENCY AVAILABILITY - BNDE/FINAME WILL FINANCE 90 PERCENT OF ALL EQUIPMENT AND SERVICES PURCHASED IN BRAZIL.

THE REMAINING 10 PER CENT WILL BE FINANCED BY THE BRAZILIAN COMPANIES. BNDE/FINAME HAS AVAILABLE FUNDS EQUIVALENT TO APPROXIMATELY 400 MILLION DOLLARS FOR LOCAL PROCUREMENT UNDER PHASE III.

F. TWO ENVELOPE BIDDING - IN ORDER TO MEET OBJECTIONS OF US SUPPLIERS TO THE TWO ENVELOPE BIDDING SYSTEM (AS REPORTED IN REFA), THE BRAZILIAN COMPANIES COMMITTED THEMSELVES TO TRY TO DEVELOP A MANDATORY PROCEDURE WHEREBY EACH BIDDER WOULD SUBMIT WITH HIS TECHNICAL PROPOSAL AN INDICATION OF HIS PRICE. THESE PRICES, OR A RANGE OF SUCH PRICES, WOULD THEN BE MADE KNOWN, IN A MANNER YET TO BE DETERMINED, TO ALL BIDDERS AT THE TIME OF THE OPENING OF THE TECHNICAL PROPOSALS. THE BRAZILIANS WOULD PRESENT THE DETAILS OF THIS PROCEDURE WITH THE BID INVITATIONS. BIDDERS WOULD BE FREE TO WITHDRAW AT THEIR OWN JUDGEMENT AND WITHOUT PREJUDICE.

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NSC-05 SSO-00 NSCE-00 INRE-00 EUR-12 /095 W

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O R 270020Z JAN 75

FM AMEMBASSY BRASILIA

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G. BRAZILIAN MARGIN OF PREFERENCE - BIDS FROM NON-BRAZILIAN FIRMS, WITH OFFERS OF FINANCING OF 15 YEARS OR MORE (THREE YEARS GRACE PERIOD PLUS 12 YEARS AMORTIZATION OR LONGER) WILL HAVE 15 PERCENT ADDED TO CIF PRICE FOR BID EVALUATION PURPOSES. (FIFTEEN PERCENT REPRESENTS MARGIN OF PREFERENCE GIVEN TO BRAZILIAN MANUFACTURERS.) BIDS FROM FOREIGN FIRMS WITH LESS THAN 15-YEARS FINANCING WILL, FOR EVALUATION PURPOSES, HAVE IMPORT DUTIES AND IPI AND ICM VALUE-ADDED TAXES ADDED TO CIF BID PRICE, IN LIEU OF THE AFOREMENTIONED BRAZILIAN MARGIN OF

PREFERENCE. (THESE CHARGES WOULD TOTAL MUCH MORE THAN 15 PERCENT OF PRICE.)

FREIGHT - BRAZILIAN COMPANIES WILL REQUIRE BID QUOTATIONS EOB VESSEL AT PORT OF EMBARKATION. SUPPLIER MUST ALSO QUOTE CIF FOR BID EVALUATION PURPOSES. ANY FREIGHT CHARGES LOWER THAN CONFERENCE RATES MUST BE SUPPORTED BY LETTER FROM CONFERENCE PLUS GUARANTEE FROM SUPPLIER.

3. RE FINANCING REQUIREMENTS, THE BRAZILIANS INDICATED--AND US TASK FORCE CONCURRED--THAT WITHOUT THE FINANCING TERMS AS OUTLINED BY THE BRAZILIAN THE US COMPANIES WOULD BE AT A DECIDED DISADVANTAGE AGAINST THOSE FOREIGN COMPETITORS WHOSE UNCLASSIFIED

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BILATERAL AGENCIES MET THE BRAZILIAN TERMS. (SEE PARA 2G ABOVE.) IT IS OF GREAT IMPORTANCE THAT DIRECT EXIMBANK PARTICIPATION ON THE CREDIT BE 45 PER CENT. AN EXIMBANK GUARANTEE OF COMMERCIAL BANK PARTICIPATION SHOULD BE AVAILABLE IF REQUIRED.

4. THIS CABLE SUMMARIZES THE UNDERSTANDINGS OF THE US DELEGATION HEADED BY DEPUTY ASST SECY HOSTLER, AND SIDERBRAS OFFICIALS THAT PARTICIPATED IN THE TASK FORCE'S FINAL JANUARY 25 CONFERENCE. DR. WILKIE BARBOSA AND DR. CARLOS HEITOR FARIA REPRESENTING SIDERBRAS PARTICIPATED IN ITS PREPARATION AND CONCUR IN ITS CONTENTS.

PART II: US INDUSTRY STATEMENT

5. US INDUSTRY MEMBERS OF THE TASK FORCE AGREE THAT THE MAIN BRAZILIAN OBJECTIVE WAS TO ENLIST THEIR SUPPORT IN BRAZILIAN EFFORTS TO OBTAIN COMPETITIVE TERMS AND CONDITIONS FROM EXIMBANK.

CERTAIN CONCESSIONS WERE INDICATED BY THE BRAZILIANS IN THE FORMULATION OF BIDDING AND PROCUREMENT RULES. IN THE OPINION OF THE BRAZILIANS, THE AMERICAN SUPPLIERS WOULD BE COMPETITIVE ON A CASH PRICE BASIS.

SINCE EVALUATION OF THE BIDS, HOWEVER, WILL BE ON FINANCED PRICE, PRESENT REPORTED EXIMBANK POLICIES COULD CLOSE THE MARKET TO THE EXPORT OF US GOODS AND SERVICES, WHICH GOODS AND SERVICES ARE FREELY AVAILABLE ABROAD.

INDUSTRY MEMBERS UNANIMOUSLY RECOMMEND THAT THEY MEET EXIMBANK WITHIN NEXT TWO WEEKS, WHERE THIS MATTER CAN BE DISCUSSED AT HIGH LEVEL WITH POLICY-RESPONSIBLE REPRESENTATIVES OF TREASURY, STATE AND COMMERCE, BEFORE US INDUSTRY MEMBERS CONSIDER INVESTING CONSIDERABLE MONIES TO SUBMIT PROPOSALS WITHOUT ESSENTIAL EXIMBANK SUPPORT.

PART III: AMBASSADOR'S COMMENTS

6. I WISH TO SUPPORT STRONGLY THE RECOMMENDATION THAT THE

INTERESTED US DEPARTMENTS, EXIMBANK, AND US INDUSTRY PARTICIPANTS MEET TO DEVELOP AN EXIMBANK/PRIVATE BANKING FINANCING PROGRAM WHICH WILL, TO THE FULLEST EXTENT POSSIBLE, PROVIDE CREDITS ON TERMS THAT WILL ALLOW US FIRMS TO BE COMPETITIVE. THE US COMPANIES AFFIRMED TO ME DURING THE TWO DAYS OF MEETINGS IN BRASILIA THAT THEY BELIEVE THEMSELVES TO BE COMPETITIVE ON A

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PRICE AND TECHNICAL BASIS AND THAT THE MAIN QUESTION HOLDING UP THEIR EFFORTS IN SEEKING TO OBTAIN THIS SUBSTANTIAL BUSINESS FOR US INDUSTRY IS THE QUESTION OF EXIMBANK FINANCING. IN ADDITION TO VERY SIZEABLE ORDERS FOR US EXPORTS IN THE NEAR TERM, IN MY VIEW THERE IS ALSO AT STAKE -- AT A TIME WHEN OUR ECONOMIC RELATIONSHIPS ARE UNDER SOME TENSION AND THERE IS PROSPECT OF PERSISTING AND PERHAPS INCREASED STRAIN -- A CONTINUING MAJOR US ROLE IN THIS STRATEGIC SECTOR OF BRAZIL'S INDUSTRIALIZATION DRIVE AND THUS A CRITICAL ELEMENT IN THE NETWORK OF RELATIONSHIPS BETWEEN THE UNITED STATES AND BRAZIL. TO MAINTAIN, FOSTER AND IMPROVE THESE RELATIONSHIPS SHOULD BE A PRIORITY OBJECTIVE OF US POLICY, GIVEN BRAZIL'S POTENTIAL AND RAPIDLY INCREASING POLITICAL AND ECONOMIC IMPORTANCE.

CRIMMINS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ASSISTANCE, STEEL, MINING INDUSTRY, MEETINGS, PROPOSALS (BID)
Control Number: n/a
Copy: SINGLE
Draft Date: 27 JAN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BRASIL00717
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750029-0247
From: BRASILIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750119/aaaaaqhn.tel
Line Count: 250
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 75 STATE 249689, 75 BRASILIA 0257
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 10 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <10 APR 2003 by MarshK0>; APPROVED <18 FEB 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: USG/US STEEL INDUSTRY SUPPLIER TASK FORCE
TAGS: BEXP, EIND, BR, US, CSN, COSIPA, USIMINAS, XMB, (GOLSON, CHARLES), (HOSTLER), (SIDEBRAS)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006